

Assistant Director, Current Intelligence

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Assistant Director, Research and Reports

Comments on G-2 Paper, "Effects of the Partial Blockade Against Communist China and Probable Effects of a Complete Blockade"

1. The attached draft paper from G-2 gives a brief summary of export control developments and their effects on the Chinese economy. Attention, however, is called to a number of points which require clarification.

Para. 1

Following the outbreak of hostilities, the U.S. stopped shipments of all strategic materials to North Korea. No immediate action was taken to change controls on exports to Communist China. On July 20, 1950, the U.S. cancelled all outstanding licenses covering items on strategic lists which had been validated for shipment to Communist China. Effective December 6, 1950, a complete embargo was placed on all U.S. shipments to China. It is inaccurate, however, to refer to all of the U.S. lists as "embargo" lists. In June 1950 the only U.S. list which provided for embargo was the U.S. 1A. The U.S. 1B list technically imposed quantitative restrictions only, but there was a presumption of denial for shipments to Communist countries. 1/

Para. 2

Although certain items were under control as early as July 1950, other equally important strategic materials were not placed under restriction by British authorities, and it was, therefore, not necessary for the Chinese Communists to resort to clandestine operations to obtain them through Hong Kong. Among these uncontrolled items were copper wire, sheet and plate, and aluminum and zinc. It was considered at that time that the "embargo" would have little effect on the "Communist buying spree" and that immediate consideration should be given to further development of special lists of strategic items which would be designed to restrict effectively the war potential of Communist-dominated areas in the Far East.

Para. 3

Although it is true that the imposition of controls on shipments of rubber to China would not directly affect Chinese capabilities,

1/ The U.S. lists recently have been re-codified and designated as US List I and US List 1A (embargo) and US List II and US List IIB (quantitative control).

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the point should be made that rubber controls may well affect capabilities of the Soviet bloc including China, since there is evidence of transshipment to the Soviet Union of a considerable quantity of the 134,000 tons cited in the paper. This is substantiated by the fact that 134,000 tons are far in excess of Communist China's normal requirements, and by evidence that as China began purchasing rubber in large quantities, Soviet purchases were reduced accordingly.

Para. 5

Requirements indicated in the draft paper appear low; current military and civil consumption ranges between 5 and 7 million barrels annually. It should be pointed out that there have been continuing reports of clandestine movements of petroleum products through Hong Kong (often paper transfers) either to Macao or the Chinese mainland. Because of recently accelerated smuggling of products through Macao,<sup>2/</sup> the CONGEN at Hong Kong believes that evidence already developed against the Macao Government is sufficiently conclusive to justify the suspension of all U.S. and Japanese export licenses to Macao, except in cases expressly endorsed by the CONGEN. It is well known that due to the recent strengthening of controls in Hong Kong, the Chinese Communists have shifted their clandestine purchasing operations to other areas, e.g., Indonesia, Burma, and India.

Para. 6

Reference to the Chinese Communists seeking "other means of importing needed materials" (i.e., increased deliveries from the Soviet Union) does not emphasize sufficiently the importance of Chinese Communist procurement of essential materials from those Western countries not applying controls as strict as those enforced by the U.S. Many Western countries--Belgium, France, Luxemburg, Germany, the UK, and Italy, to mention but a few--do not consider such trade with China to be contrary to the spirit of the UN Embargo Resolution. Many items sent to China are considered by many countries as "non-strategic" since they are not included in the COCOM embargo lists. Chinese industrialization for war does not require, however, items of advanced technology. Items not meeting IL-1 definitions include certain materials and equipment in the following categories: steel plate and angle bars, machinery, seamless boiler tubes, ball and roller bearings, milling machines, steam turbines, dyestuffs, steel wire, motors and centrifugal pumps,

2/ Investigation has revealed the possible existence of a POL smuggling syndicate involving the Chinese staffs of Shell and Caltex in Hong Kong, as well as Macao.

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cranes, electric power cables. Shipments of such materials by Western powers through Singapore to the Chinese mainland surely constitute "other means" by which the Communists are enabled to build their economic potential for aggression.

Para. 7

It is not clear what is intended by the second sentence of this paragraph. It is suggested that the first two paragraphs be revised to read as follows:

"It is apparent that the effects of the present partial blockade against Communist China have been sufficiently serious to cause the Chinese Communist Government to take urgent steps in an attempt to neutralize the blockade. A complete Western blockade would have an even greater restraining influence on Chinese Communist plans."

Deletion of the word "all" in the penultimate sentence, paragraph 7, is considered advisable since the USSR is continuing to make shipments by sea.

Para. 8

It is suggested that the last paragraph be deleted as the embargo concept as applied to Communist China does not contemplate embargo by the USSR.

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